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SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION - COUNTY OF
MONMOUTH
Docket No.

ZULIMA V. FARBER, Attorney
General of the State of New
Jersey, on behalf of FRANKLIN
L. WIDMANN, Chief of the New
Jersey Bureau of Securities,

Plaintiff,

v.

GARY S. KLEIN, JOSEPH SPUGANI,
NIZAR AZZAM, R.E.I. GROUP,
INC., a New Jersey
Corporation, R.E.I. HIGHLAND
PARK, LLC, a New Jersey
Limited Liability Company,
HOBE SOUNDS INVESTORS, LLC, a
New Jersey Limited Liability
Company, HOBE SOUND FL -
GOMEZ, LLC, a New Jersey
Limited Liability Company,
HOBE SOUND, FL - DOTTIE, LLC,
a New Jersey Limited Liability
Company, JUMPING BROOK ROAD,
LLC, a New Jersey Limited
Liability Company, 218 1/2 4TH

Civil Action
VERIFIED COMPLAINT

AVENUE, LLC, a New Jersey Limited Liability Company, 601 BANGS AVENUE, LLC, a New Jersey Limited Liability Company, 711 BANGS AVENUE ASBURY PARK, LLC, a New Jersey Limited Liability Company, 613 BANGS AVENUE ASBURY PARK, LLC, a New Jersey Limited Liability Company, 600 MAIN STREET, LLC, a New Jersey Limited Liability Company, 1001 MAIN STREET ASBURY PARK, LLC, a New Jersey Limited Liability Company, 400 MAIN STREET AVON, LLC, a New Jersey Limited Liability Company, RIVERDALE COMMONS LLC, a New Jersey Limited Liability Company, RIVERDALE MORTGAGE INVESTORS, LLC, a New Jersey Limited Liability Company, 716 COOKMAN AVENUE, LLC, a New Jersey Limited Liability Company, 633 COOKMAN AVENUE, LLC, a New Jersey Limited Liability Company, 310 MAIN STREET ASBURY PARK, LLC, a New Jersey Limited Liability Company, 505 SUMMERFIELD AVENUE, LLC, a New Jersey Limited Liability Company, 508 MONROE AVENUE, LLC, a New Jersey Limited Liability Company, REI GROUP @ THE DELMONTE HOTEL, LLC, a New Jersey Limited Liability Company, REI GROUP @ THE STERLING, LLC, a New Jersey Limited Liability Company, REI GROUP AT INZA AND SOUTH 11TH, LLC, a New Jersey Limited Liability Company, REI GROUP AT 205 SECOND AVENUE, LLC, a New Jersey Limited Liability Company, HSM PROPERTY, L.P., a New Jersey Limited Liability Partnership, ROAN LANE

DEVELOPMENT GROUP, LLC, a
Florida Limited Liability
Company, MT. DORA DEVELOPMENT
GROUP, LLC, a Florida Limited
Liability Company, FORT
PIERCE, FL - HOPE POINT, LLC,
a Florida Limited Liability
Company.

Defendants.

Plaintiff, Franklin L. Widmann, Chief of the New Jersey Bureau of Securities (the "Bureau" or "Plaintiff") with offices at 153 Halsey Street, 6th Floor, Newark, New Jersey, through attorney, Zulima V. Farber, Attorney General of New Jersey (Deputy Attorney General Samuel Scott Cornish appearing), by way of Verified Complaint states:

STATEMENT OF THE CASE

In December 2005, the Bureau began investigating R.E.I. Group, Inc. ("REI"), a New Jersey real estate investment corporation operating in Asbury Park, New Jersey. This investigation was triggered by an investor's complaint that REI was delinquent in payments under certain promissory notes (the "REI Notes") issued in connection with REI's real estate ventures. (Certification of Investigator Julian Leone ("Leone Cert.") included herein, ¶ 4.)

Soon after commencing its investigation, the Bureau was approached by the controller of REI, who provided the Bureau

with documents and information regarding REI's finances and business operations. (Leone Cert. ¶ 14.) Through the controller, the Bureau learned that REI was insolvent and had been operating a "Ponzi" scheme. (Leone Cert. ¶ 55.) Specifically, REI has engaged and continues to engage in fraudulent and deceitful business practices, including, but not limited to, the misappropriation and diversion of investors' funds and the selling of unregistered securities in a fraudulent manner. (Leone Cert. ¶¶ 5-8.)

JURISDICTION

1. The Bureau is charged with the administration and enforcement of the Uniform Securities Law (1997) of New Jersey, N.J.S.A. 49:3-47 et seq. (the "Securities Law") and has offices at 153 Halsey Street, 6th Floor, Newark, New Jersey 07102.

2. Plaintiff brings this civil action under the Securities Law for violations of: N.J.S.A. 49:3-52 (a) (employing a device, scheme or artifice to defraud); N.J.S.A. 49:3-52 (b) (making false statements of material fact or omitting to state a material fact); N.J.S.A. 49:3-52 (c) (engaging in an act, practice, or course of business which operates as a fraud or deceit upon any person); N.J.S.A. 49:3-60 (selling unregistered securities); N.J.S.A. 49:3-56(a) (acting as an agent without registration); and N.J.S.A. 49:3-56(h) (employing unregistered agents).

PARTIES

3. REI is a New Jersey corporation with a principal place of business at 601 Bangs Avenue, Suite 201, Asbury Park, New Jersey. REI serves as the managing member of most of the defendant "Real Estate LLCs" alleged below.

4. Gary S. Klein ("Klein") is the founder and President of REI, which he operates under his complete control. Klein resides at 7 Hambletonian Drive, Colts Neck, New Jersey.

5. Joseph Spugani ("Spugani"), who resides at 11254 Sea Grass Circle, Boca Raton, Florida, sold and offered the REI Notes for and on behalf of REI and others.

6. Nizar Azzam ("Azzam"), who resides at 2 Scott Drive, Morganville, New Jersey, was the Vice President and Chief Financial Officer of REI.

7. In addition to defendants REI, Klein, Spugani, and Azzam (collectively, "Defendants"), this Complaint names the following entities, most of which are Limited Liability Companies, which are or were operated in connection with REI (the "Real Estate LLCs") under the control of Klein and others. Often, the Real Estate LLCs were created for the purpose of owning the investment property at issue in this case.

8. REI Highland Park, LLC is a New Jersey Limited Liability Company with a principal place of business at 601 Bangs Avenue, Asbury Park, New Jersey.

9. Hobe Sounds Investors, LLC is a New Jersey Limited Liability Company with a registered office at 142 Route 35, Suite 204B, Eatontown, New Jersey.

10. Hobe Sound FL - Gomez, LLC is a New Jersey Limited Liability Company with a principal place of business at 1005 Main Street, Asbury Park, New Jersey.

11. Hobe Sound, FL - Dottie, LLC ("HSD LLC") is a New Jersey Limited Liability Company with a principal place of business at 1005 Main Street, Asbury Park, New Jersey.

12. Jumping Brook Road, LLC is a New Jersey Limited Liability Company with a principal place of business at 601 Bangs Avenue, Asbury Park, New Jersey.

13. 218 1/2 4th Avenue, LLC is a New Jersey Limited Liability Company.

14. 601 Bangs Avenue, LLC is a New Jersey Limited Liability Company.

15. 711 Bangs Avenue Asbury Park, LLC is a New Jersey Limited Liability Company.

16. 613 Bangs Avenue Asbury Park, LLC is a New Jersey Limited Liability Company.

17. 600 Main Street, LLC is a New Jersey Limited Liability Company.

18. 1001 Main Street Asbury Park, LLC is a New Jersey Limited Liability Company.

19. 400 Main Street Avon, LLC is a New Jersey Limited Liability Company.

20. Riverdale Commons LLC is a New Jersey Limited Liability Company.

21. Riverdale Mortgage Investors, LLC is a New Jersey Limited Liability Company.

22. 716 Cookman Avenue, LLC is a New Jersey Limited Liability Company that has a principal place of business at 15 Elm Street, Shrewsbury, New Jersey.

23. 633 Cookman Avenue, LLC is a New Jersey Limited Liability Company that has a principal place of business at 15 Elm Lane, Shrewsbury, New Jersey.

24. 310 Main Street Asbury Park, LLC is a New Jersey Limited Liability Company.

25. 505 Summerfield Avenue, LLC is a New Jersey Limited Liability Company.

26. 508 Monroe Avenue, LLC is a New Jersey Limited Liability Company.

27. REI Group @ The Delmonte Hotel, LLC is a New Jersey Limited Liability Company.

28. REI Group @ The Sterling, LLC is a New Jersey Limited Liability Company with a principal place at 27 Roosevelt Street, Freehold, New Jersey.

29. REI Group At Inza and South 11th, LLC is a New Jersey Limited Liability Company.

30. REI Group At 205 Second Avenue, LLC is a New Jersey Limited Liability Company.

31. HSM Property, L.P. is a New Jersey Limited Liability Partnership Association.

32. Roan Lane Development Group, LLC is a Florida Limited Liability Company.

33. Mt. Dora Development Group, LLC is a Florida Limited Liability Company.

34. Fort Pierce, FL - Hope Point, LLC is a Florida Limited Liability Company.

FACTUAL ALLEGATIONS

35. REI holds itself out to the public "as one of the leading real estate investment companies in the region [that] continue[s] to add to [its] portfolio of successful ventures and profitable holdings [with a] . . . primary focus of growing real estate investment dollars." (Certification of Donna Winters ("Winters Cert.") included herein, Ex. AA.) Since 2003, Klein, the founder and President of REI, has offered and sold the REI Notes, which are securities under N.J.S.A. 49:3-49(m) in the form of promissory notes, investment contracts, or other evidence of indebtedness. (Leone Cert. ¶¶ 17-19, Ex. A.)

36. Although Defendants represent that the REI Notes are "guaranteed," REI is currently insolvent with a negative net worth of over \$5 million and is operating under a \$1.5 million deficit. (Leone Cert. Ex. M.)

37. To maintain the appearance of solvency, Defendants solicit new investors to avoid defaulting on their obligations to REI Note holders and other creditors. In classic "Ponzi" scheme fashion, Defendants use new investors' funds to pay other investors giving the appearance that investors are actually profiting from their investment. (Leone Cert. ¶¶ 55, 66, Ex. I.)

38. During the next several months millions of dollars will become due and owing to REI Note holders, which Defendants can not pay. Already, as of March 1, 2006, Defendants have failed to pay \$942,876.00 under the REI Notes. (Leone Cert. ¶¶ 17, Exs. A, J.)

A. Defendants' Offer & Sale of Unregistered Securities to Investors

39. The REI Notes are offered as "investment vehicles" for the real estate ventures of REI. REI's real estate ventures purportedly earn investment income or capital appreciation. (Leone Cert. ¶¶ 24-27, 42, Ex. D); (Winters Cert. ¶¶ 18-25, Ex. C.)

40. In total, Defendants issued twelve separate REI Note offerings, which were named REI Offerings #1 through #12 (the "REI Offerings"), the most recent of which ended in January 2006. Each REI Offering includes specific REI Notes tailored to the underlying real estate venture. (Leone Cert. ¶¶ 17-18, Ex. A.)

41. Most REI Notes are titled "Assignments of Interest - . . . Preferred Return on Investment (ROI)." Under the REI Notes, the maker, usually Klein, "assigns his share of the property described [in the note]," which entitles the investor to the "rate of return" on the face of the REI Note. (Leone Cert. Ex. D.); (Winter Cert. ¶ 9, Ex. F.)

42. Klein personally guaranteed that the REI Notes would provide a "guaranteed" rate of return. (Leone Cert. ¶ 42, Ex. D.); (Winter Cert. ¶ 9, Ex. F.) Although the rates of return and the maturity periods vary, most REI Notes have a rate of return exceeding 12% and a maturity period greater than one year. The rate of return under the REI Notes is commonly above 30% and in some instances is 85%. (Leone Cert. ¶¶ 4-7, Ex. A); (Winter Cert. ¶ 9.)

43. Defendants also represent that the "profits" and "returns" on the REI Notes is generated by income or capital gains from a specific real estate venture. (Leone Cert. ¶ 5, Ex. D); (Winter Cert. ¶ 9, Exs. C, F.) Control of the real

estate ventures is vested exclusively with REI, Klein, or the Real Estate LLCs. (Leone Cert. ¶ 15.) The REI Note holders are completely passive and have no involvement with or knowledge of the day-to-day activity of the real estate ventures. (Id.)

44. Any payments made to investors under the REI Notes is in the form of a check issued by REI.

1. Defendants' Solicitation of Investors and Use of Unregistered Agents

45. For each REI offering, Defendants solicit investors using: (1) unregistered broker-dealers and agents; (2) solicitation materials; (3) REI's website, which remained active through the date this Complaint was filed; (4) written communications, such as e-mails; and (5) investor seminars. (Leone Cert. Ex. D); (Winters Cert. ¶¶ 1-12, 31-36, 45-47, Ex. Y.)

46. All solicitation efforts were orchestrated, coordinated, and controlled by Klein in his capacity as President and founder of REI.

47. Defendant Spugani solicited the investors for 181 of the 194 outstanding REI Notes. In return, Spugani received a commission of 7% plus an additional payment upon maturity of the REI Notes. (Leone Cert. ¶¶ 19-22.)

48. Additionally, four individuals assisted Spugani in soliciting investors. (Leone Cert. ¶ 20.)

49. As of November 2005, defendant Spugani had generated \$735,427.00 in commissions for selling REI Notes. (Leone Cert. Exs. B, C.)

50. In addition to Spugani and his associates, defendants Klein and Azzam solicited investors by participating in "investor seminars." (Winters Cert. ¶¶ 1-12, 45-47, Exs. Y, Z.)

51. In one instance, in October 2004, Defendants held an investor seminar at the home of one of defendant Spugani's associates in Somerset, New Jersey. At this investor seminar, a slide show was presented. (Winters Cert. ¶ 46.)

52. In connection with each REI offering, Defendants drafted and distributed solicitation materials. (Leone Cert. ¶¶ 39-43); (Winters Cert. ¶ 20-25, Ex. C.)

53. The solicitation materials represented that the REI Notes' rate of return was "guaranteed." (Leone Cert. ¶¶ 39-43); (Winters Cert. ¶¶ 9, 20-25, Exs. B, C, D, F.)

54. In soliciting investors, defendant Spugani also represented that "under no circumstance will the return be less than the minimum stated return [on the face of the REI Notes], regardless of actual units sold." (Winters Cert. ¶ 23, Ex. D.)

55. The only statement in the solicitation materials regarding the risks carried by the REI Notes was the following:

"INFORMATION CONTAINED HEREIN IS PROVIDED FOR INFORMAL DISCUSSION PURPOSES ONLY and is subject to error, change, withdrawal without notice and any and all conditions which our principals may impose. All information is deemed reliable, however no representation is made with regard to the accuracy thereof. A complete and independent analysis should be conducted by any prospective investor prior to investing."

(Leone Cert. Ex. D) (emphasis added.)

B. Defendants' Fraudulent and Deceitful Business Practices and Sale of Securities

56. Through the conduct alleged in this Complaint, in the course of offering and selling, promissory notes, investment contracts, and other evidence of indebtedness to investors, Defendants knowingly, or with reckless disregard, made the following misrepresentations and false statements:

- a. the REI Notes were "guaranteed";
- b. under the REI Notes "under no circumstance will the return be less than the minimum stated return, regardless of actual units sold";
- c. REI's "[i]ncome producing properties generate over \$1.2 MM of annual gross rental income";
- d. "[e]ach property [of REI] generates positive cash flow which is mostly reinvested into the business";
- e. "the total debt and investor equity" on the properties would not exceed 75% to 85%; and
- f. investors' funds would be used in connection with a specific real estate venture.

57. In the course of offering and selling, notes, investment contracts, and other evidence of indebtedness to investors, Defendants knowingly, or with reckless disregard, failed to disclose or did not sufficiently disclose certain information, such as:

- a. the risks of investing in the REI Notes;
- b. that the property securing and underlying some of the REI Notes did not fully protect investors because the properties were encumbered by mortgages and other undisclosed debt;
- c. that commercial and institutional lenders received first mortgages on the properties and would have priority over the investors' interest in the property;
- d. how Defendants intended to use the investors' funds;
- e. that Klein is insolvent and unable to service his debt obligations;
- f. the financial condition of the makers and guarantors of the REI Notes;
- g. that REI's liabilities far exceed its assets and that the chance of recovering the initial investment is actually unrealistic;
- h. that REI must incur additional debt to pay its operating expenses;
- i. that REI uses funds of new investors to pay old investors;
- j. that Spugani received significant commissions for locating investors;
- k. market factors that may affect the performance of the real estate ventures,

including interest rates, natural fluctuations in the real estate market, and competition;

- l. the identity of the owners of the property underlying each REI offering;
- m. the identity of the owners and members of the Real Estate LLCs that co-owned the properties;
- n. the operational agreements of the Real Estate LLCs; and
- o. the fact that the REI Notes were securities under the Securities Law.

58. Defendants' misrepresentations and omissions made in the solicitation materials, through oral and written communications, and through their conduct, include the examples stated above and the following:

1. Misrepresentations and Omissions Regarding the Use of Investors' Funds

59. The solicitation materials and REI Notes represented to investors that investors' funds were designated for a specific real estate venture. Instead, Defendants diverted investors' funds for their personal use and misappropriated investors' funds for unrelated real estate ventures, REI's general business expenses, and to pay other REI Note holders. (Leone Cert. ¶¶ 6, 55, Ex. M.)

a. Klein's Misappropriation of Funds and Equity for Personal Use

60. In addition to his \$160,000.00 yearly salary, from August 5, 2004 through November 30, 2005, Klein diverted \$2,010,705.00 of investors' and REI's funds for his personal use. (Leone Cert. ¶¶ 45-47, Ex. F.)

61. Approximately \$2,010,705.00 was recorded on REI's books as "personal distributions" to Klein, but Klein has not repaid this amount. (Leone Cert. Ex. F.)

62. Klein has also used funds originating in the accounts of REI or investors to pay personal expenses, such as his baseball league fees and his personal credit card bills. (Leone Cert. Ex. F.)

63. Since August 2003, Klein has diverted almost \$1.9 million to purchase property for and construct his home at 7 Hambletonian Court, Colts Neck, New Jersey. (Leone Cert. Ex. F.)

64. Klein's Colts Neck home is not part of REI's portfolio, as represented by REI's website and its internal equity analysis. (Leone Cert. Ex. L.)

65. Investors were not informed that Klein used their money to purchase lavish amenities for his Colts Neck home, such as an \$11,000.00 mirror. (Leone Cert. ¶¶ 5-6, Ex. D.)

b. Misrepresentations and Omissions Regarding the Debt and Financial Condition of REI and Klein

66. In soliciting investors, Defendants represented REI as a thriving corporation with numerous existing and successful real estate ventures.

67. Defendants represented on REI's website that REI's "[i]ncome producing properties generate over \$1.2 MM of annual gross rental income" and that "[e]ach property [of REI] generates positive cash flow which is mostly reinvested into the business." (<http://www.reigroup.com>, April 8, 2006.)

68. In order to keep the corporation operational, REI has and continues to need to solicit capital from new investors and obtain loans. (Leone Cert. ¶ 48, Ex. M.)

69. REI's internal budgetary analysis, dated March 14, 2006 (the "REI Budget Report"), demonstrated that REI's operating expenses far exceeded its operating revenues. Unknown to REI's investors, REI has systematically solicited new investors to pay its operating expenses, its obligations to investors under the REI Notes, and its obligations to institutional and commercial lenders. (Leone Cert. Ex. M.)

70. To sustain its operations, Defendants issued REI Offering #12, which, by January 18, 2006, had issued \$430,500.00 of REI Notes from at least sixteen investors. In some instances, these funds were used to make payments to other

purchasers of REI Notes and other creditors. None of the investors' funds from REI Offering #12 were used to purchase property. (Leone Cert. Exs. A, M.)

71. REI also misrepresented its net worth to potential investors. For instance, REI's website represented that REI's portfolio was worth "over \$40 [million]" and was "both wholly owned and syndicated to active and passive investors." (<http://www.reigroup.com>, April 8, 2006.)

72. Furthermore, the solicitation materials and the REI Notes represented that the investment properties would not be encumbered by debt greater than 75% to 85% of the market value of the property. (Leone Cert. ¶ 40); (Winters Cert. ¶ 37, Ex. N.)

73. But REI's internal equity analysis, dated October 31, 2005 (the "REI Equity Analysis"), demonstrated that REI's debts exceeded its assets by at least \$5,483,755.00. (Leone Cert. Ex. L.)

74. This debt included money owed under the REI Notes, as well as money owed to commercial and institutional lenders. (Leone Cert. Exs. L, M.)

75. Most of REI's properties were also encumbered by the first mortgages of institutional and commercial lenders, but investors were unaware of these mortgagees. (Leone Cert. Exs. K, L.)

76. As of February 9, 2006, REI had approximately twenty-seven outstanding mortgages issued to commercial and institutional lenders on thirteen properties for a total of \$26,075,508 in outstanding mortgages. The mortgage amounts did not include the mortgage on Klein's personal residence or the monies owed to REI Note holders. (Leone Cert. Exs. K, L.)

c. Misrepresentations and Omissions Regarding the Risk Carried by the REI Notes

77. With respect to the risks carried by the REI Notes, the solicitation materials only stated that: "INFORMATION CONTAINED HEREIN IS PROVIDED FOR INFORMAL DISCUSSION PURPOSES ONLY and is subject to error, change, withdrawal without notice and any and all conditions which our principals may impose. All information is deemed reliable, however no representation is made with regard to the accuracy thereof. A complete and independent analysis should be conducted by any prospective investor prior to investing."

78. In addition, Defendants represented that the returns stated on the REI Notes were "guaranteed" and that "under no circumstance will the return be less than the minimum stated return, regardless of actual units sold." (Winters Cert. Ex. D.)

79. In truth, the REI Notes carried substantial risk in light of Defendants' misappropriation of funds, REI's

negative net worth, Klein's substantial personal debt, and the outstanding debt attached to the properties, none of which were disclosed to current or potential investors.

2. Example: Dottie Way, Hobe Sound (REI. #7 & #7-2) Offering

80. REI Offering #7 involved real property located on Dottie Way in Hobe Sound, Florida (the "Dottie Way Venture"). The property was purchased on November 23, 2004 for \$2,250,000 by defendant Hobe Sound Dottie LLC ("HSD LLC"), an LLC created by Defendants for the specific purpose of purchasing the property. (Leone Cert. ¶ 28, Ex. E.)

81. There were five members of HSD LLC. Klein and REI together had and have a 72% interest in the LLC. The remaining ownership in HSD LLC was as follows: (a) 15.15% for defendant Azzam; (b) 8.56% for Mitchell Chwatt; and (c) 4.28% for James Parent. (Leone Cert. ¶¶ 29-47.)

82. To close on the Dottie Way property, HSD LLC mortgaged \$1,584,000.00 of the purchase price through an independent third party at a yearly interest rate of 13%. (Leone Cert. ¶ 30, Ex. E.)

83. HSD LLC's remaining equity in the Dottie Way property, after subtracting the mortgage, was \$666,000 on November 23, 2004. (Leone Cert. ¶ 30.)

84. Klein and REI had a combined ownership interest of 72% of HSD LLC, but had not contributed any funds. (Leone Cert. ¶ 29.)

85. Between March 2005 and May 2005, Defendants raised \$2.4 million through the issuance of over 70 REI Notes. All of these REI Notes were guaranteed personally by Klein. (Leone Cert. ¶ 31, Ex. A.)

86. The solicitation materials offered two "investment vehicles," which were both "guaranteed" by Klein. (Leone Cert. ¶¶ 37-43, Ex. D.)

87. The first investment vehicle was an REI Note with an 8% rate of return and an equity payment resulting in a total annual return of 20% and a total return of 40%. (Leone Cert. ¶¶ 37-43, Ex. D.)

88. The second "investment vehicle" in connection with REI Offering #7 was a REI Note with a minimum return of 30% and a maximum return of 36% per year. For this investment vehicle, the rate of return depended on the sale price of the Dottie Way properties. (Leone Cert. Ex. D.)

89. The REI Notes and the solicitation materials relative to REI Offering #7 promised that the total debt and investor equity attached to the Dottie Way property would not exceed 80% of the property's value. (Leone Cert. Ex. D.)

90. Defendants also represented that if "the property [is] sold prior to the maturity of the investment term[,] REI has the right to substitute another property which meets or exceeds all stated financial terms and conditions." (Leone Cert. Ex. D.)

91. After the investors transferred their funds, Defendants used the funds for purposes other than the Dottie Way Venture. Of the total amount raised, approximately \$400,000.00 was transferred to Klein's personal account, approximately \$200,000.00 was paid to defendant Spugani in commissions, and some additional cash was distributed to defendant Azzam and James Parent for their initial cash outlay in the venture. (Leone Cert. ¶¶ 34-36.)

92. Unknown to the investors, funds raised through REI Offering #7 were used to pay other REI Note holders and creditors. (Leone Cert. ¶¶ 34-37.)

93. Defendant Azzam was repaid the entire amount of his investment, yet he still retained his ownership interest in HSD LLC. (Leone Cert. ¶¶ 33-37.)

94. Although the Dottie Way property was purchased in November 2004 for \$2.25 million, total liabilities for the property are approximately \$4.9 million, including both the commercial mortgage and the maturity value of the REI Notes. (Leone Cert. ¶ 36, Exs. A, E.)

C. REI Is Nearing Financial Collapse But Continues to Solicit New Investors and Waste Assets

95. The REI Budget Report demonstrates that REI began March 2006 under a \$1,449,615.00 operating deficit. Investors were unaware of this fact. (Leone Cert. Ex. M.)

96. The following excerpt from the REI Budget Report shows the imminency and the inevitability of REI's financial collapse:

Date	Operating Surplus (Deficit)	Payments to Investors	Monthly Deficit	Month's-End Deficit
3/2006	(\$154,338)	\$1,003,501	-\$1,157,889	-\$2,607,504
4/2006	(\$288,705)	\$1,552,950	-\$1841,655	-\$4,449,158
5/2006	\$822,510	\$985,090	-\$162,580	-\$4,611,739
6/2006	(\$366,233)	\$13,000	-\$379,233	-\$4,611,739
7/2006	\$169,459	\$417,648	-\$248,189	-\$5,239,160
8/2006	\$614,596	\$1,696,310	-\$1,081,714	-\$6,320,874
9/2006	\$210,401	\$121,580	-\$150,521	-\$6,471,394

97. By September of 2006, at the current rate of return on assets and with the liabilities attached to the investment properties, REI will have a deficit of \$6,471,394. (Leone Cert. Ex. M.)

98. Because of REI's economic distress, REI has failed to make payments under the REI Notes. As of March 1,

2006, \$942,876.00 was past due under the REI Notes. (Leone Cert. Exs. J, M.)

99. Despite being advised by the Bureau to stop their illegal conduct in February 2006, Defendants continue to violate the Securities Law and continue to siphon equity from investment properties.

100. On March 14, 2006, Klein received a mortgage on one of the investment properties that has unsecured debt and investors' funds associated with it. (Leone Cert. Ex. N.) Through this conduct, Klein is diminishing the already deficient equity in the investment properties that can be used to restore the REI Note holders. (Leone Cert. Ex. O.)

SECURITIES LAW VIOLATIONS

FIRST COUNT
(as to REI)

**Violations of N.J.S.A. 49:3-52(a) for Employing a Device,
Scheme, or Artifice to Defraud in Connection with a Securities
Transaction**

101. Plaintiff repeats the allegations set forth in paragraphs 1 through 100 as if set forth fully herein.

102. The REI Notes are notes, investment contracts and other evidence of indebtedness that Defendants offered and sold to, from, or within the State of New Jersey.

103. In offering and selling the REI Notes, Defendants knowingly or recklessly employed fraudulent or manipulative devices, schemes, or artifices in violation of N.J.S.A. 49:3-52(a). Such violations of N.J.S.A. 49:3-52(a) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

104. Defendants employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because of REI's and Klein's economic distress and undisclosed financial debt.

105. As a direct and proximate result of Defendants' fraudulent or manipulative devices, schemes, or artifices, investors suffered and will continue to suffer damages.

Investors have been harmed by Klein's personal use of their funds, and REI's inability to pay its operating expenses without incurring additional debt. The undisclosed financial debt and economic distress of Klein and REI will directly affect Klein's ability to perform under the REI Notes.

106. Each fraudulent or manipulative device, scheme, or artifice is a violation of N.J.S.A. 49:3-52(a) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

SECOND COUNT
(as to Klein)

**Violations of N.J.S.A. 49:3-52(a) for Employing a Device,
Scheme, or Artifice to Defraud in Connection with a Securities
Transaction**

107. Plaintiff repeats the allegations set forth in paragraphs 1 through 106 as if set forth fully herein.

108. The REI Notes are notes, investment contracts and other evidence of indebtedness that Defendants offered and sold to, from, or within the State of New Jersey.

109. In offering and selling the REI Notes, Defendants knowingly or recklessly employed fraudulent or manipulative devices, schemes, or artifices in violation of N.J.S.A. 49:3-52(a). Such violations of N.J.S.A. 49:3-52(a) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

110. Defendants employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because of REI's and Klein's economic distress and undisclosed financial debt.

111. Klein employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because he misused funds from REI and investors for personal expenses, including the construction of his Colts Neck home.

112. As a direct and proximate result of Defendants' fraudulent or manipulative devices, schemes, or artifices, investors suffered and will continue to suffer damages. Investors have been harmed by Klein's personal use of their funds, and REI's inability to pay its operating expenses without incurring additional debt. The undisclosed financial debt and economic distress of Klein and REI will directly affect Klein's ability to perform under the REI Notes.

113. Each fraudulent or manipulative device, scheme, or artifice is a violation of N.J.S.A. 49:3-52(a) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

THIRD COUNT
(as to Spugani)

**Violations of N.J.S.A. 49:3-52(a) for Employing a Device,
Scheme, or Artifice to Defraud in Connection with a Securities
Transaction**

114. Plaintiff repeats the allegations set forth in paragraphs 1 through 113 as if set forth fully herein.

115. The REI Notes are notes, investment contracts and other evidence of indebtedness that Defendants offered and sold to, from, or within the State of New Jersey.

116. In offering and selling the REI Notes, Defendants knowingly or recklessly employed fraudulent or manipulative devices, schemes, or artifices in violation of N.J.S.A. 49:3-52(a). Such violations of N.J.S.A. 49:3-52(a) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

117. Defendants employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because of REI's and Klein's economic distress and undisclosed financial debt.

118. Spugani employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint in order to earn his commissions and acquire an interest in various real estate ventures of REI.

119. As a direct and proximate result of Defendants' fraudulent or manipulative devices, schemes, or artifices, investors suffered and will continue to suffer damages. Investors have been harmed by Klein's personal use of their funds, and REI's inability to pay its operating expenses without incurring additional debt. The undisclosed financial debt and economic distress of Klein and REI and the commissions received by Spugani will directly affect Klein's ability to perform under the REI Notes.

120. Each fraudulent or manipulative device, scheme, or artifice is a violation of N.J.S.A. 49:3-52(a) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

FOURTH COUNT
(as to Azzam)

**Violations of N.J.S.A. 49:3-52(a) for Employing a Device,
Scheme, or Artifice to Defraud in Connection with a Securities
Transaction**

121. Plaintiff repeats the allegations set forth in paragraphs 1 through 120 as if set forth fully herein.

122. The REI Notes are notes, investment contracts and other evidence of indebtedness that Defendants offered and sold to, from, or within the State of New Jersey.

123. In offering and selling the REI Notes, Defendants knowingly or recklessly employed fraudulent or manipulative

devices, schemes, or artifices in violation of N.J.S.A. 49:3-52(a). Such violations of N.J.S.A. 49:3-52(a) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

124. Defendants employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because of REI's and Klein's economic distress and undisclosed financial debt.

125. Azzam employed the fraudulent or manipulative devices, schemes, or artifices alleged in this Complaint because of his interest in various real estate ventures of REI.

126. As a direct and proximate result of Defendants' fraudulent or manipulative devices, schemes, or artifices, investors suffered and will continue to suffer damages. Investors have been harmed by Klein's personal use of their funds, and REI's inability to pay its operating expenses without incurring additional debt. The undisclosed financial debt and economic distress of Klein and REI will directly affect Klein's inability to perform under the REI Notes.

127. Each fraudulent or manipulative device, scheme, or artifice is a violation of N.J.S.A. 49:3-52(a) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

FIFTH COUNT
(as to REI)

**Violations of N.J.S.A. 49:3-52(b) for Making Material
Misrepresentations or Omissions in Connection with a Securities
Transaction**

128. Plaintiff repeats the allegations set forth in paragraphs 1 through 127 as if set forth fully herein.

129. In offering and selling the REI Notes, Defendants made materially false or misleading statements or omissions in violation of N.J.S.A. 49:3-52(b). Such violations of N.J.S.A. 49:3-52(b) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

130. Each materially false or misleading statement or omission is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

131. Each omission necessary to make a material statement not false or misleading is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

SIXTH COUNT
(as to Klein)

**Violations of N.J.S.A. 49:3-52(b) for Making Material
Misrepresentations or Omissions in Connection with a Securities
Transaction**

132. Plaintiff repeats the allegations set forth in paragraphs 1 through 131 as if set forth fully herein.

133. In offering and selling the REI Notes, Defendants made materially false or misleading statements or omissions in violation of N.J.S.A. 49:3-52(b). Such violations of N.J.S.A. 49:3-52(b) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

134. Each materially false or misleading statement or omission is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

135. Each omission necessary to make a material statement not false or misleading is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

SEVENTH COUNT
(as to Spugani)

**Violations of N.J.S.A. 49:3-52(b) for Making Material
Misrepresentations or Omissions in Connection with a Securities
Transaction**

136. Plaintiff repeats the allegations set forth in paragraphs 1 through 135 as if set forth fully herein.

137. In offering and selling the REI Notes, Defendants made materially false or misleading statements or omissions in violation of N.J.S.A. 49:3-52(b). Such violations of N.J.S.A. 49:3-52(b) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

138. Each materially false or misleading statement or omission is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

139. Each omission necessary to make a material statement not false or misleading is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

EIGHT COUNT
(as to Azzam)

**Violations of N.J.S.A. 49:3-52(b) for Making Material
Misrepresentations or Omissions in Connection with a Securities
Transaction**

140. Plaintiff repeats the allegations set forth in paragraphs 1 through 139 as if set forth fully herein.

141. In offering and selling the REI Notes, Defendants made materially false or misleading statements or omissions in violation of N.J.S.A. 49:3-52(b). Such violations of N.J.S.A. 49:3-52(b) are specifically alleged in this Complaint, including in paragraphs 56 through 95.

142. Each materially false or misleading statement or omission is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

143. Each omission necessary to make a material statement not false or misleading is a violation of N.J.S.A. 49:3-52(b) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

NINTH COUNT
(as to REI)

Violations of N.J.S.A. 49:3-52(c) For Engaging in Acts, Practices, and a Course of Business, which Operated as a Fraud in Connection with a Securities Transaction

144. Plaintiff repeats the allegations set forth in paragraphs 1 through 143 as if set forth fully herein.

145. Defendants knowingly or recklessly engaged in acts, practices, and courses of business that operated as a fraud or deceit on those who invested in the REI Notes.

146. Defendants' fraudulent or deceitful conduct in violation of N.J.S.A. 49:3-52(c) is alleged throughout this Complaint, including in paragraphs 56 through 95.

147. Each fraudulent or deceitful action is a violation of N.J.S.A. 49:3-52(c) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

TENTH COUNT
(as to Klein)

**Violations of N.J.S.A. 49:3-52(c) For Engaging in Acts,
Practices, and a Course of Business, which Operated as a Fraud
in Connection with a Securities Transaction**

148. Plaintiff repeats the allegations set forth in paragraphs 1 through 147 as if set forth fully herein.

149. Defendants knowingly or recklessly engaged in acts, practices, and courses of business that operated as a fraud or deceit on those who invested in the REI Notes.

150. Defendants' fraudulent or deceitful conduct in violation of N.J.S.A. 49:3-52(c) is alleged throughout this Complaint, including in paragraphs 56 through 95.

151. Each fraudulent or deceitful action is a violation of N.J.S.A. 49:3-52(c) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

ELEVENTH COUNT
(as to Spugani)

**Violations of N.J.S.A. 49:3-52(c) For Engaging in Acts,
Practices, and a Course of Business, which Operated as a Fraud
in Connection with a Securities Transaction**

152. Plaintiff repeats the allegations set forth in paragraphs 1 through 151 as if set forth fully herein.

153. Defendants knowingly or recklessly engaged in acts, practices, and courses of business that operated as a fraud or deceit on those who invested in the REI Notes.

154. Defendants' fraudulent or deceitful conduct in violation of N.J.S.A. 49:3-52(c) is alleged throughout this Complaint, including in paragraphs 56 through 95.

155. Each fraudulent or deceitful action is a violation of N.J.S.A. 49:3-52(c) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

TWELTH COUNT
(as to Azzam)

Violations of N.J.S.A. 49:3-52(c) For Engaging in Acts, Practices, and a Course of Business, which Operated as a Fraud in Connection with a Securities Transaction

156. Plaintiff repeats the allegations set forth in paragraphs 1 through 155 as if set forth fully herein.

157. Defendants knowingly or recklessly engaged in acts, practices, and courses of business that operated as a fraud or deceit on those who invested in the REI Notes.

158. Defendants' fraudulent or deceitful conduct in violation of N.J.S.A. 49:3-52(c) is alleged throughout this Complaint, including in paragraphs 56 through 95.

159. Each fraudulent or deceitful action is a violation of N.J.S.A. 49:3-52(c) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

THIRTEENTH COUNT

(as to REI, Klein, Spugani, and Azzam)

Selling Unregistered Securities In Violation of N.J.S.A. 49:3-60

160. Plaintiff repeats the allegations set forth in paragraphs 1 through 159 as if set forth fully herein.

161. The REI Notes were promissory notes, investment contracts and other evidence of indebtedness, as defined under N.J.S.A. 49:3-49(m).

162. The REI Notes were not registered with the Bureau under N.J.S.A. 49:3-61 (registration of securities by qualification), N.J.S.A. 49:3-61.1 (registration of securities by coordination), or N.J.S.A. 49:3-61.2 (registration of securities by notification) and did not qualify for any of the registration exemptions under N.J.S.A. 49:3-50. Nor were the REI Notes federal covered securities pursuant to N.J.S.A. 49:3-60.1.

163. In selling and offering the REI Notes to, from, or within the State of New Jersey, Defendants violated N.J.S.A. 49:3-60.

164. Each offer or sale of the REI Notes is a separate violation of N.J.S.A. 49:3-60 and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

FOURTEENTH COUNT
(as to REI and Klein)
Employing Unregistered Agents In Violation of N.J.S.A. 49:3-56(h)

165. Plaintiff repeats the allegations set forth in paragraphs 1 through 164 as if set forth fully herein.

166. Defendants REI and Klein employed unregistered agents in effecting or attempting to effect securities transactions in violation of N.J.S.A. 49:3-56(h).

167. Each instance of employing an unregistered agent was a separate violation of N.J.S.A. 49:3-56(h) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

FIFTEENTH COUNT
(as to Klein, Azzam, and Spugani)
Failing to Register as an Agent In Violation of N.J.S.A. 49:3-56(a)

168. Plaintiff repeats the allegations set forth in paragraphs 1 through 167 as if set forth fully herein.

169. Defendant Klein, Azzam, and Spugani acted as agents as defined by N.J.S.A. 49:3-49(b).

170. At all relevant times, neither Klein, Azzam, nor Spugani were registered with the Bureau as agents.

171. Each instance of acting as an agent was a separate violation of N.J.S.A. 49:3-56(a) and is cause for the imposition of a civil monetary penalty under N.J.S.A. 49:3-70.1.

Demand for Relief

WHEREFORE, Plaintiff respectfully prays for the following relief:

- (a) that judgment be entered against each of the defendants, jointly and severally, determining that they have committed the alleged violations of the Securities Law;
- (b) ordering the defendants, at their expense, to hire an independent accountant to be selected by the Bureau to conduct an accounting of the use of the investors' funds;
- (c) ordering the defendants to make restitution payments to the investors damaged by the defendants' violations of the Securities Law;
- (d) requiring the defendants to disgorge all profits and/or funds gained through violations of the Securities Law;
- (e) assessing and imposing a civil monetary penalty on the defendants for each separate violation of the Securities Law in accordance with N.J.S.A. 49:3-70.1;


- (f) enjoining the defendants or anyone acting on their behalf from violating the Securities Law;
- (g) freezing the assets of REI, Klein, and the Real Estate LLCs. The assets shall include, but are not limited to, real property, personal property, checking and savings accounts, brokerage and trading accounts and all other assets and property of every description;
- (h) Appointing a receiver that is vested with any and all authority, standing, power, and discretion provided by and permitted under N.J.S.A. 49:3-69(c) and N.J.S.A. 14A:14-5 including, but not limited to:
- i. preserve the status quo;
 - ii. manage the assets and business operations of the defendants;
 - iii. ascertain the true financial condition of the defendants and the true use and disposition of investors' funds;
 - iv. prevent further misuse and dissipation of the property and

- assets of the defendants and the investors;
- v. prevent the encumbrance or disposal of property or assets of the defendants and the investors;
 - vi. locate and collect assets of the defendants and investors that have been misused, diverted, or fraudulently transferred;
 - vii. pursue causes of action against third parties on behalf of the defendants and investors;
 - viii. preserve the books, records, documents, and evidence of the defendants;
 - ix. ensure the defendants' compliance with the Securities Law;
 - x. communicate with investors; and
 - xi. determine whether REI or the other defendants should file a bankruptcy petition.

(i) affording Plaintiff and affected third parties with any additional relief that the Court deems just and equitable.

ZULIMA V. FARBER
ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff

By:


Samuel Scott Cornish
Deputy Attorney General

Dated: April 18, 2006

RULE 4:5-1 CERTIFICATION

I certify that Plaintiff has not initiated any other civil action in any court of this State against Defendants and is not now engaged in any arbitration proceeding against Defendants, nor is any other civil action or arbitration proceeding contemplated. I certify that, at this time, Plaintiff is unaware of any other party that should be joined in this action.

ZULIMA V. FARBER
ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff

By:



Samuel Scott Cornish
Deputy Attorney General

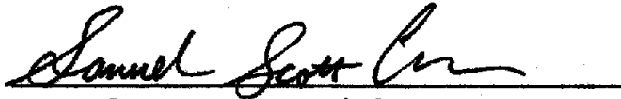
Dated: April 13, 2006

DESIGNATION OF TRIAL COUNSEL

Deputy Attorneys General Anna Lascurain and Samuel Scott Cornish are hereby designated as trial counsel for this matter.

ZULIMA V. FARBER
ATTORNEY GENERAL OF NEW JERSEY
Attorney for Plaintiff

By:



Samuel Scott Cornish
Deputy Attorney General

Dated: April 18, 2006

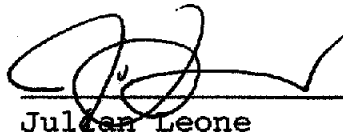
RULE 1:6-6 VERIFICATION

Julian Leone, of full age, certifies as follows:

1. I am an investigator with the New Jersey Bureau of Securities.

2. I have read this Verified Complaint and verify that the information contained therein is true and correct to the best of my knowledge, information, and belief.

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements are willfully false I am subject to punishment.

A handwritten signature in dark ink, appearing to be 'Julian Leone', is written over a horizontal line.

Julian Leone

Dated: April 18, 2006